SaskTel

First Quarter Report

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Saskatchewan Telecommunications Holding Corporation

First Quarter Report 2017/18
For the Period Ending June 30, 2017

Saskatchewan Telecommunications Holding Corporation (SaskTel) is a Saskatchewan Crown corporation. SaskTel is the leading full service communications provider in Saskatchewan, offering a wide range of communications products and services including competitive voice, data, Internet, entertainment, security monitoring, messaging, cellular, wireless data and Marketing Services. In addition, SaskTel International offers software solutions and project consulting in countries around the world.

SaskTel and our wholly-owned subsidiaries have a workforce of approximately 3,900 full time equivalent employees.

Our vision is *"Be the best at connecting people to their world."* and our mission is *"To provide the best customer experience through our superior networks, exceptional service, advanced solutions and applications."*

Financial Highlights

Consolidated Net Income

Quarter ended June 30, Millions of dollars	**2017**	2016	Change	% Change
Revenue	**$309.3**	$310.8	$(1.5)	(0.5)
Other income	**0.7**	1.8	(1.1)	(61.1)
	310.0	312.6	(2.6)	(0.8)
Expenses	**272.8**	272.4	0.4	0.1
Results from operating activities	**37.2**	40.2	(3.0)	(7.5)
Net finance expense	**8.7**	4.3	4.4	102.3
Net income	**$28.5**	$35.9	$(7.4)	(20.6)

Net income for the first quarter of 2017/18 is $28.5 million, down $7.4 million (20.6%) from the same period in 2016/17. Revenues decreased to $309.3 million, down $1.5 million (0.5%) from the same period in 2016/17. This is primarily due to reduced revenues from legacy services and equipment sales.

Expenses for the first quarter of 2017/18 increased to $272.8 million, up $0.4 million from the same period in 2016/17. This increase is primarily driven by increased wireless acquisition costs.

Net finance expense was $8.7 million, up $4.4 million from the same period in 2016/17 primarily driven by sinking fund fair value fluctuations recognized in net income in 2016/17 that are now recognized in other comprehensive income (OCI) upon adoption of IFRS 9 effective April 1, 2017 (see *Note 1 – Basis of presentation*).

Management's Discussion and Analysis

August 10, 2017

Forward-Looking Information

The following discussion focuses on the consolidated financial position and results of the operations of SaskTel for the first quarter of the 2017/18 fiscal year. This discussion and analysis should be read in conjunction with SaskTel's audited financial statements for the fiscal year ended March 31, 2017. Some sections of this discussion include forward-looking statements about SaskTel's corporate direction and financial objectives. A statement is forward-looking when it uses information known today to make an assertion about the future. Since these forward-looking statements reflect expectations and intentions at the time of writing, actual results could differ materially from those anticipated if known or unknown risks and uncertainties impact the business, or if estimates or assumptions turn out to be inaccurate. As a result, SaskTel cannot guarantee that any of the predictions forecasted by forward-looking statements will occur. As well, forward-looking statements do not take into consideration the effect of transactions or non-recurring items announced or occurring subsequently. Therefore, SaskTel disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. For a full discussion of risk factors, please refer to Management's Discussion & Analysis in SaskTel's 2016/17 annual report. These interim statements have been prepared in accordance with the International Financial Reporting Standard IAS 34, "Interim Financial Reporting". These interim statements have been approved by the SaskTel Board of Directors on August 10, 2017.

Results of Operations

Revenue

Millions of dollars	**2017**	2016	Change	%
Three months ended June 30	**$309.3**	$310.8	$(1.5)	(0.5)

Revenue for the first quarter of 2017/18 decreased to $309.3 million, down $1.5 million or 0.5% from the same period in 2016/17. This decrease is primarily due to decreased accesses for local, enhanced, and long distance services due to "cord cutters," wireless displacement, and little to no organic growth as a result of "cord nevers," as well as, reduced premise equipment sales. The decreases are partially offset by an increase in Internet and wireless revenue resulting from increased accesses and average revenue per unit.

Expenses

Millions of dollars	**2017**	2016	Change	%
Three months ended June 30	**$272.8**	$272.4	$0.4	0.1

Expenses for the first quarter of 2017/18 increased to $272.8 million, up $0.4 million from the same period in 2016/17. Goods and services purchased increased $1.5 million as a result of increased customer acquisition costs partially offset by reduced spending on advertising, consulting and contracted services. Net salaries, wages and benefits decreased $0.8 million primarily due to reduced full time equivalent employees. Depreciation and amortization has decreased $0.3.

Net finance expense

Millions of dollars	2017	2016	Change	%
Three months ended June 30	**$8.7**	$4.3	$4.4	102.3

Net finance expense for the first quarter of 2017/18 was $8.7 million, up $4.4 million over the same period in 2016/17. This is driven by sinking fund fair value fluctuations recognized in net income in the previous fiscal year that are now recognized in OCI upon the adoption of IFRS 9 effective April 1, 2017.

Liquidity and Capital Resources

Cash provided by operating activities

Millions of dollars	2017	2016	Change	%
Three months ended June 30	**$75.4**	$64.6	$10.8	16.7

Cash provided by operating activities in the first quarter of 2017/18 increased to $75.4 million, up $10.8 million from the same period in 2016/17, primarily due to reduced working capital requirements partially offset by reduced cash from operations.

Cash used in investing activities

Millions of dollars	2017	2016	Change	%
Three months ended June 30	**$54.9**	$60.6	$(5.7)	(9.4)

Cash used in investing activities in the first quarter of 2017/18 decreased to $54.9 million, down $5.7 million due to planned capital spending reductions from the same period in 2016/17 and reduced demand for network access as a result of current economic conditions.

Capital Spending

Total capital expenditures for the first quarter of 2017/18 were $56.6 million, down $4.9 million from the same period in 2016/17.

SaskTel's net spending on property, plant and equipment for the first quarter of 2017/18 was $43.3 million, down $10.8 million from the same period in 2016/17. This is a result of planned capital spending reductions, completion of the data centre functionality and the Mosaic Stadium infrastructure projects and reduced demand for access in communities. SaskTel's net spending on intangible assets was $13.3 million, up $5.9 million from the same period in 2016/17 due to increased spending on network inventory software and the acquisition of customer accounts.

Capital expenditures in 2017/18 will focus on further investment in the core Saskatchewan network including: FTTP, wireless network enhancements and basic network growth and enhancements. This core network investment will ensure: increased Internet access speeds; enhanced *maxTV* services; increased wireless bandwidth, resulting in increased roaming capacity and data speeds; as well as continued network growth and refurbishment. Expenditures will also enhance customer interface and expand service offerings. Significant investment will also be focused on corporate facilities.

Cash used in financing activities

Millions of dollars	2017	2016	Change	%
Three months ended June 30	**$22.6**	$5.6	$17.0	*nmf*[1]

[1] *nmf - no meaningful figure*

Cash used in financing activities in the first quarter of 2017/18 was $22.6 million, up $17.0 million from the same period in 2016/17. This is due to a net reduction of short-term and long-term debt as well as increased sinking fund payments.

Liquidity and capital resource ratios

Debt ratio

	June 30, 2017	March 31, 2017
Debt ratio	**47.6%**	47.9%

The debt ratio decreased to 47.6%, down from 47.9% at March 31, 2017. The overall level of net debt decreased $14.1 million during the first quarter primarily due to increased sinking funds and reduced total borrowing, partially offset by reduced cash.

Equity decreased by $2.9 million in the first quarter of 2017/18 after recording comprehensive income of $24.6 million and dividends of $27.5 million.

The debt ratio is calculated as net debt divided by end of period capitalization. Net debt is defined as total debt, including long-term debt, notes payable and the current portion of long-term debt, less sinking funds, and cash and short-term investments. Capitalization includes net debt, equity advances, accumulated other comprehensive income (loss) and retained earnings at the period end.

2017/18 Outlook

The 2016/17 SaskTel Annual Report identified a consolidated net income target for the fiscal year ended March 31, 2018 of $122.1 million. At this time, SaskTel believes it will meet this target.

Risk Assessment

The 2016/17 Annual Report discusses the risks and uncertainties in SaskTel's business environment focusing on both Strategic and Core Business Risks. The Strategic Risks include risks that may inhibit SaskTel from achieving its Strategic Plan including the following areas: customer, broadband, transformation, and profitability. The Core Business Risks focus on risks associated with the execution of SaskTel's business functions including the following areas: operational, financial and compliance and legal.

A strong governance process for risk management is in place. This is an iterative process designed to identify, evaluate, mitigate and control, report, monitor and assess key risks. SaskTel's key risk profile remains unchanged at June 30, 2017.

Condensed Consolidated Interim Statement of Income and Other Comprehensive Income

Thousands of dollars	Note	(Unaudited) Three months ended June 30, 2017	2016
Revenue	2	**$309,290**	$310,763
Other income	2	**756**	1,827
		310,046	312,590
Expenses			
Goods and services purchased		**133,175**	131,658
Salaries, wages and benefits		**94,487**	95,231
Internal labour capitalized		**(6,460)**	(6,453)
Depreciation	4	**41,844**	42,127
Amortization	5	**9,760**	9,804
		272,806	272,367
Results from operating activities		**37,240**	40,223
Net finance expense	3	**8,706**	4,310
Net income		**28,534**	35,913
Other comprehensive income (loss)			
Items that will be reclassified to net income			
Sinking fund market value gains		**449**	-
Items that will never be reclassified to net income			
Net actuarial losses on defined benefit pension plan	7	**(4,405)**	(11,366)
Total other comprehensive loss		**(3,956)**	(11,366)
Total comprehensive income		**$24,578**	$24,547

All net income and total comprehensive loss are attributable to Crown Investments Corporation of Saskatchewan (CIC).

See Accompanying Notes

Condensed Consolidated Interim Statement of Changes in Equity

(Unaudited)

Thousands of dollars	Equity advances	Accumulated other comprehensive loss (restated see note 1)	Retained earnings (restated see note 1)	Total equity
Balance at April 1, 2017				
As previously reported	**$250,000**	**$(1,546)**	**$706,218**	**$954,672**
Impact of adoption of IFRS 9	**-**	**(5,198)**	**5,198**	**-**
As restated	**250,000**	**(6,744)**	**711,416**	**954,672**
Net income	**-**	**-**	**28,534**	**28,534**
Other comprehensive loss	**-**	**(3,956)**	**-**	**(3,956)**
Total comprehensive income (loss) for the period	**-**	**(3,956)**	**28,534**	**24,578**
Dividends declared	**-**	**-**	**27,475**	**27,475**
Balance at June 30, 2017	**$250,000**	**$(10,700)**	**$712,475**	**$951,775**
Balance at April 1, 2016	$250,000	$(55,035)	$601,379	$796,344
Net income	-	-	35,913	35,913
Other comprehensive loss	-	(11,366)	-	(11,366)
Total comprehensive income (loss) for the period	-	(11,366)	35,913	24,547
Dividends declared	-	-	7,500	7,500
Balance at June 30, 2016	$250,000	$(66,401)	$629,792	$813,391

See Accompanying Notes

Condensed Consolidated Interim Statement of Financial Position

As at Thousands of dollars	Note	(Unaudited) **June 30, 2017**	March 31, 2017
Assets			
Current assets			
Cash		**$8,948**	$11,067
Trade and other receivables	9a	**119,789**	144,990
Inventories	9a	**20,614**	25,462
Prepaid expenses	9a	**52,079**	51,371
		201,430	232,890
Property, plant and equipment	4	**1,692,673**	1,693,234
Intangible assets	5	**323,541**	318,832
Sinking funds		**145,453**	141,033
Other assets		**8,291**	8,542
		$2,371,388	$2,394,531
Liabilities and Province's equity			
Current liabilities			
Trade and other payables	9a	**$136,065**	$169,149
Dividend payable		**27,475**	7,500
Notes payable	9c	**114,493**	177,105
Other liabilities	9a	**70,180**	68,525
		348,213	422,279
Deferred revenue		**7,399**	8,055
Deferred revenue – government funding		**36,669**	38,237
Long-term debt	6, 9c	**902,803**	851,949
Employee benefit obligations	7	**124,529**	119,339
		1,419,613	1,439,859
Province of Saskatchewan's equity			
Equity advance		**250,000**	250,000
Accumulated other comprehensive loss		**(10,700)**	(1,546)
Retained earnings		**712,475**	706,218
		951,775	954,672
		$2,371,388	$2,394,531

See Accompanying Notes

Condensed Consolidated Interim Statement of Cash Flows

Thousands of dollars	Note	(Unaudited) Three months ended June 30, 2017	2016
Operating activities			
Net income		**$28,534**	$35,913
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	4, 5	**51,604**	51,931
Net financing expense	3	**8,706**	4,310
Interest paid		**(12,870)**	(11,847)
Interest received		**1,471**	1,426
Amortization of government funding	2	**(1,350)**	(1,264)
Other		**969**	1,720
Net change in non-cash working capital	9b	**(1,652)**	(17,624)
		75,412	64,565
Investing activities			
Property, plant and equipment expenditures		**(43,122)**	(53,103)
Intangible assets expenditures		**(13,439)**	(7,498)
Government funding		**1,669**	-
		(54,892)	(60,601)
Financing activities			
Proceeds from long-term debt	9c	**50,748**	-
Net proceeds (repayment) of notes payable	9c	**(62,612)**	3,948
Sinking fund installments		**(3,275)**	(2,000)
Dividends paid	9c	**(7,500)**	(7,500)
		(22,639)	(5,552)
Decrease in cash		**(2,119)**	(1,588)
Cash, beginning of period		**11,067**	16,099
Cash, end of period		**$8,948**	$14,511

See Accompanying Notes

Notes to Condensed Consolidated Interim Financial Statements (Unaudited)
As at and for the three months ended June 30, 2017

Note 1 – Basis of presentation

The unaudited condensed consolidated interim financial statements (hereinafter referred to as the interim financial statements) as at and for the three months ended June 30, 2017 have been prepared in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting as issued by the International Accounting Standards Board (IASB). These interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Saskatchewan Telecommunications Holding Corporation's (the Corporation) March 31, 2017 audited consolidated financial statements.

The interim financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the IASB (IFRS). The accounting policies and methods of computation used in the preparation of these interim financial statements conform with those used in the Corporation's most recent annual consolidated financial statements, and have been applied consistently to all periods presented in these interim financial statements except as discussed in the "Application of revised International Financial Reporting Standards" section of this note.

The interim financial statements as at and for the three-month period ended June 30, 2017 were approved by the Board of Directors on August 10, 2017.

Functional and presentation currency
These interim financial statements are presented in Canadian dollars, which is the Corporation's functional currency.

Basis of measurement
The interim financial statements have been prepared on the historical cost basis except for the following:

- Fair value through other comprehensive income financial instruments are measured at fair value, and
- Employee benefit obligations are recognized as the fair value of the plan assets less the present value of the accrued benefit obligation.

Use of estimates and judgments
The preparation of the interim financial statements in conformity with International Financial Reporting Standards (IFRS) requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the interim financial statements includes the following:

- Use of the straight-line basis of depreciation and amortization,
- Classification of intangible assets – indefinite life,
- Classification of financial instruments, and
- Accounting for government funding.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year includes the following:

- Credit risk assessment of financial instruments,
- Useful lives and depreciation rates for property plant and equipment,
- Useful lives and amortization rates for intangible assets, and
- The measurement of employee benefit obligations.

Note 1 – Basis of presentation, continued

Application of new and revised International Financial Reporting Standards

IAS 7 Statement of cash flows

Effective April 1, 2017, the Corporation has adopted the disclosure requirements in *Disclosure Initiative (amendments to IAS 7)* in accordance with the provisions of the standard. Consequently, the Corporation has provided additional disclosure in relation to the changes in liabilities arising from financing activities for the fiscal year ended March 31, 2018. Comparative information has not been presented (see *Note 9c Additional financial information - Changes in liabilities arising from financing activities*).

IFRS 9 Financial instruments (2014)

Effective April 1, 2017, the Corporation has early adopted *IFRS 9 Financial Instruments* issued in July 2014 (IFRS 9) with a date of initial application of April 1, 2017. The Corporation has elected to adopt the standard retrospectively with impacts recorded in retained earnings as of April 1, 2017. The requirements of IFRS 9 represent a significant change from IAS 39 *Financial Instruments: Recognition and Measurement*.

As a result of the adoption of IFRS 9, the Corporation adopted consequential amendments to *IFRS 7 Financial Instruments: Disclosures* that are applied to disclosures about 2017/18 but generally have not been applied to comparative information.

The key changes to the Corporation's accounting policies resulting from its adoption of IFRS 9 are summarized below.

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

The adoption of IFRS 9 has not had a significant effect on the Corporation's accounting policies for financial liabilities.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The Corporation measures loss allowances at an amount equal to the lifetime ECL for financial assets measured at amortized cost and 12-month ECL for sinking fund investments at FVOCI, which have been determined to have a low credit risk at the reporting date.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months). In all cases, the maximum period considered when estimating ECLs is the maximum contractual period over which the Corporation is exposed to credit risk.

Note 1 – Basis of presentation, continued

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Corporation considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Corporation's historical experience and informed credit assessment, including forward-looking information. It is assumed that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Corporation considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Corporation in full, without recourse by the Corporation to actions such as realizing security (if any is held); or
- the financial asset is 90 days or more past due.

Assets measured at amortized cost (accounts receivable) are assessed based on business segment, an aging of the accounts within each segment and default probabilities within each segment. Based on this analysis, the application of the ECL model has not had a significant impact on impairment assessment for accounts receivable.

Assets measured at FVOCI (sinking funds) are assessed based on the credit risk rating of the investments held in the sinking funds. The Corporation considers a debt security to have low credit risk when its credit risk rating is equivalent to the definition of 'investment grade'. The Corporation considers this to be AA or higher per DBRS or Aa or higher per Moody's. Investments held within the sinking funds are rated investment grade and there have been no defaults of assets held within the sinking fund. As a result, the application of the ECL model has not had a significant impact on impairment assessments.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 (2014) have been applied retrospectively in accordance with specific transition provisions of the standard. The impacts are outlined below:

The following table summarizes the impact of transition to IFRS 9 on retained earnings and accumulated other comprehensive income at April 1, 2017.

Thousands of dollars	Impact of adopting IFRS 9 at April 1, 2017
Retained earnngs	
Closing balance under IAS 39 (March 31, 2017)	**$706,218**
Reclassification of sinking funds as FVOCI	**5,198**
Recognition of expected credit losses under IFRS 9	-
Opening balance under IFRS 9 (April 1, 2017)	**$711,416**
Accumulated other comprehensive loss	
Closing balance under IAS 39 (March 31, 2017)	**$(1,546)**
Reclassification of sinking funds as FVOCI	**(5,198)**
Recognition of expected credit losses under IFRS 9	-
Opening balance under IFRS 9 (April 1, 2017)	**$(6,744)**

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets as measured at FVTPL.

Note 1 – Basis of presentation, continued

If an investment in a debt security had low credit risk at the date of initial application of IFRS 9, then the Corporation assumed that the credit risk on the asset had not increased significantly since its initial recognition.

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Corporation's financial assets and financial liabilities as at April 1, 2017.

Thousands of dollars	Original classification under IAS 39[1]	New classification under IFRS 9[1]	Original carrying amount under IAS 39	New Carrying amount under IFRS 9
Financial Assets				
Cash	FVTPL	FVTPL	**$11,067**	**$11,067**
Trade and other receivables	LAR	Amortized cost	**144,990**	**144,990**
Sinking funds	FVTPL	FVOCI	**141,033**	**141,033**
Total financial assets			**$297,090**	**$297,090**
Financial liabilities				
Trade and other payables	OL	OL	**$169,149**	**$169,149**
Notes payable	OL	OL	**177,105**	**177,105**
Long-term debt	OL	OL	**851,949**	**851,949**
Foreign exchange contracts used for hedging	FVTPL	FVTPL	**64**	**64**
Total financial liabilities			**$1,198,267**	**$1,198,267**

[1] LAR – loans and receivables, FVOCI – fair value through other comprehensive income, FVTPL – fair value through profit or loss, OL – other liabilities.

The application of IFRS 9 resulted in the reclassifications set out in the table above. The most significant reclassifications are explained below.

Trade and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortized cost. Based on application of the expected credit loss model, the allowance for doubtful accounts remains unchanged at April 1, 2017 on transition to IFRS 9.

Sinking fund investments previously classified as fair value through profit or loss are now classified at fair value through other comprehensive income. The Corporation intends to match the duration of the financial assets to the duration of the debt that the assets are funding and therefore the business model is to both hold to collect contractual cash flows (payments of principal and interest) as well as sale proceeds realized through matching of durations. Realized gains or losses are recorded in net income and unrealized gains and losses are recorded in OCI. Fair value gains in the amount of $0.4 million, recognized in OCI, would have been recognized in net income based on the IAS 39 classification of fair value through profit or loss.

Note 1 – Basis of presentation, continued

New standards and interpretations not yet adopted

Certain new standards, interpretations and amendments to existing standards were issued by the International Accounting Standards Board or International Financial Reporting Interpretations Committee. These include:

Standard	Description	Impact	Effective Date
IFRS 15 Revenue from contracts with customers	This standard establishes principles to record revenues from contracts for the sale of goods or services, unless the contracts are in the scope of other IFRSs. Under IFRS 15, revenue is recognized at an amount that reflects the expected consideration receivable in exchange for transferring goods or services to a customer, applying the following five steps: 1. Identify the contract with a customer 2. Identify the performance obligations in the contract 3. Determine the transaction price 4. Allocate the transaction price to the performance obligations in the contract 5. Recognize revenue when (or as) the entity satisfies a performance obligation The new standard also provides guidance relating to contract costs and for the measurement and recognition of gains and losses on the sale of certain non-financial assets such as property and equipment. Additional disclosures will also be required under the new standard.	IFRS 15 will primarily impact the timing of revenue recognition, the classification of revenues between products and services, and accounting for costs to obtain and fulfil contracts. Under multiple-element arrangements, although the total revenue recognized during the term of a contract will be largely unaffected, the revenue allocated to a delivered item will no longer be limited to the non-contingent amount. This may accelerate the recognition of revenue ahead of the associated cash inflows and result in a corresponding contract asset recorded on the balance sheet, to be realized over the term of the customer contract. Significant judgments will need to be made when defining the enforceable rights and obligations of a contract, in determining whether a promise to deliver goods or services is considered distinct, and to determine when the customer obtains control of the distinct good or service. A detailed implementation plan is being established which will result in necessary system and process changes throughout 2017 and 2018 to determine the impact on the Corporation's 2018/19 financial statements and key performance metrics, and determine the impact on historical comparative information. As a result, it is not yet possible to determine the impact of the new standard on the Corporation's financial statements, however, the Corporation anticipates the most significant impacts will be on wireless services. While total wireless revenues recognized from a customer contract will not likely change significantly, revenue recognition will be accelerated for certain customer contracts and a greater proportion of revenue will be reclassified as equipment revenue.	Fiscal years beginning on or after January 1, 2018, applied retrospectively with certain practical expedients available. Early adoption is permitted. The Corporation has elected to adopt IFRS 15 retrospectively with the cumulative effect of all prior year impacts recognized in retained earnings on April 1, 2018 (the date of adoption).
IFRS 16 Leases	Under the new standard all leases will be brought onto companies' balance sheets. IFRS 16 also removes the classification of leases as either operating leases or finance leases (for the lessee—the lease customer), treating all leases as finance leases.	IFRS 16 may affect the classification, measurement and valuation of leases. The Corporation is currently evaluating the impact of IFRS 16 on the financial statements.	Fiscal years beginning on or after January 1, 2019, applied retrospectively with certain practical expedients available. Early adoption is permitted.

Notes to Condensed Consolidated Interim Financial Statements (Unaudited)
As at and for the three months ended June 30, 2017

Note 2 – Revenue and other income

Thousands of dollars	Three months ended June 30, 2017	2016
Services revenue		
Wireless	**$125,987**	$123,864
maxTV, Internet and data	**86,306**	83,255
Local and enhanced	**51,138**	55,387
Equipment	**11,051**	13,660
Long distance	**9,909**	11,031
Marketing Services	**9,049**	9,744
Security monitoring	**6,586**	5,761
International software and consulting	**2,216**	1,514
Other	**7,048**	6,547
	309,290	310,763
Other income		
Net loss on retirement or disposal of property, plant and equipment	**(544)**	(484)
Amortization of government funding	**1,350**	1,264
Other	**(50)**	1,047
	756	1,827
	$310,046	$312,590

Note 3 – Net finance expense

Thousands of dollars	Three months ended June 30, 2017	2016
Interest on long-term debt	**$10,839**	$10,073
Interest on short-term advances	**209**	362
Interest capitalized	**(1,197)**	(1,409)
Net interest expense	**9,851**	9,026
Net interest on defined benefit liability	**1,021**	1,487
Finance expense	**10,872**	10,513
Sinking fund market value gains	**-**	(3,993)
Sinking fund earnings	**(695)**	(785)
Interest income on loans and receivables	**(1,471)**	(1,425)
Finance income	**(2,166)**	(6,203)
Net finance expense recognized in consolidated net income	**$8,706**	$4,310
Interest capitalization rate	**4.16%**	4.01%

Notes to Condensed Consolidated Interim Financial Statements (Unaudited)
As at and for the three months ended June 30, 2017

Note 4 – Property, plant and equipment

Thousands of dollars	Plant and equipment	Buildings and improvements	Office furniture and equipment	Plant under construction	Land	Total
Cost						
Balance at April 1, 2017	**$3,527,447**	**$512,386**	**$176,236**	**$145,736**	**$38,344**	**$4,400,149**
Additions	**22,159**	**3**	**2,091**	**19,056**	**-**	**43,309**
Transfers	**14,683**	**4,483**	**1,397**	**(20,563)**	**-**	**-**
Retirements and disposals	**(8,912)**	**(1,451)**	**(14,620)**	**-**	**(11)**	**(24,994)**
Balance at June 30, 2017	**$3,555,377**	**$515,421**	**$165,104**	**$144,229**	**$38,333**	**$4,418,464**
Balance at April 1, 2016	$3,384,440	$470,908	$157,951	$148,707	$37,507	$4,199,513
Additions	49,727	3,647	18,608	186,430	917	259,329
Transfers	148,534	38,808	2,075	(189,401)	(16)	-
Retirements and disposals	(55,254)	(977)	(2,398)	-	(64)	(58,693)
Balance at March 31, 2017	$3,527,447	$512,386	$176,236	$145,736	$38,344	$4,400,149
Accumulated depreciation						
Balance at April 1, 2017	**$2,433,054**	**$157,358**	**$116,503**	**$ -**	**$ -**	**$2,706,915**
Depreciation	**33,559**	**3,048**	**5,237**	**-**	**-**	**41,844**
Retirements and disposals	**(8,147)**	**(196)**	**(14,625)**	**-**	**-**	**(22,968)**
Balance at June 30, 2017	**$2,458,466**	**$160,210**	**$107,115**	**$ -**	**$ -**	**$2,725,791**
Balance at April 1, 2016	$2,359,252	$146,716	$99,207	$ -	$ -	$2,605,175
Depreciation	131,844	11,212	19,969	-	-	163,025
Retirements and disposals	(58,042)	(570)	(2,673)	-	-	(61,285)
Balance at March 31, 2017	$2,433,054	$157,358	$116,503	$ -	$ -	$2,706,915
Carrying amounts						
At April 1, 2017	**$1,094,393**	**$355,028**	**$59,733**	**$145,736**	**$38,344**	**$1,693,234**
At June 30, 2017	**$1,096,911**	**$355,211**	**$57,989**	**$144,229**	**$38,333**	**$1,692,673**
At April 1, 2016	$1,025,188	$324,192	$58,744	$148,707	$37,507	$1,594,338
At March 31, 2017	$1,094,393	$355,028	$59,733	$145,736	$38,344	$1,693,234

Note 5 – Intangible assets

Thousands of dollars	Goodwill	Software	Customer accounts	Spectrum licences	Under development	Total
Cost						
Balance at April 1, 2017	**$5,976**	**$350,322**	**$108,171**	**$108,738**	**$21,497**	**$594,704**
Acquisitions	**-**	**3,352**	**3,827**	**-**	**5,291**	**12,470**
Acquisitions – internally developed	**-**	**438**	**-**	**-**	**342**	**780**
Transfers	**-**	**16,027**	**-**	**-**	**(16,027)**	**-**
Retirements, disposals and adjustments	**-**	**1,133**	**-**	**-**	**-**	**1,133**
Balance at June 30, 2017	**$5,976**	**$371,272**	**$111,998**	**$108,738**	**$11,103**	**$609,087**
Balance at April 1, 2016	$5,976	$324,737	$92,035	$108,738	$7,180	$538,666
Acquisitions	-	12,681	16,136	-	25,323	54,140
Acquisitions – internally developed	-	1,974	-	-	690	2,664
Transfers	-	11,696	-	-	(11,696)	-
Retirements and disposals	-	(766)	-	-	-	(766)
Balance at March 31, 2017	$5,976	$350,322	$108,171	$108,738	$21,497	$594,704
Accumulated amortization						
Balance at April 1, 2017	**$ -**	**$209,078**	**$66,794**	**$ -**	**$ -**	**$275,872**
Amortization	**-**	**7,876**	**1,884**	**-**	**-**	**9,760**
Retirements and disposals	**-**	**(86)**	**-**	**-**	**-**	**(86)**
Balance at June 30, 2017	**$ -**	**$216,868**	**$68,678**	**$ -**	**$ -**	**$285,546**
Balance at April 1, 2016	$ -	$177,381	$60,231	$ -	$ -	$237,612
Amortization	-	31,826	6,563	-	-	38,389
Retirements and disposals	-	(129)	-	-	-	(129)
Balance at March 31, 2017	$ -	$209,078	$66,794	$ -	$ -	$275,872
Carrying amounts						
At April 1, 2017	**$5,976**	**$141,244**	**$41,377**	**$108,738**	**$21,497**	**$318,832**
At June 30, 2017	**$5,976**	**$154,404**	**$43,320**	**$108,738**	**$11,103**	**$323,541**
At April 1, 2016	$5,976	$147,356	$31,804	$108,738	$7,180	$301,054
At March 31, 2017	$5,976	$141,244	$41,377	$108,738	$21,497	$318,832

Note 6 – Long-term debt

On May 9, 2017, the Corporation issued $50 million of long-term debt at a premium of $0.7 million through the Saskatchewan Ministry of Finance. The debt issue has a coupon rate of 3.30%, an effective interest rate of 3.22%, and matures on June 2, 2048.

Note 7 – Employee benefit obligations

Other comprehensive loss results from changes to actuarial assumptions related to the assets and liabilities of the Corporation's employee benefit plans, specifically the discount rate used to calculate the liabilities of the employee defined benefit plan and changes in the fair value of the employee benefit defined plan assets resulting from differences in the actual versus estimated return on these assets. The discount rates used are as follows:

	2017/18	2016/17
June 30	**3.30%**	3.50%
September 30	**n/a**	3.10%
December 31	**n/a**	3.60%
March 31	**n/a**	3.50%

In addition to the other comprehensive loss impact detailed below, these assumption changes, combined with pension income and benefits paid for the period, have resulted in a net increase in the employee benefit obligations for the period.

	Three months ended June 30,	
Thousands of dollars	**2017**	2016
Actuarial loss on accrued benefit obligation	**$(26,251)**	$(13,391)
Return on plan assets excluding interest income	**21,846**	2,025
Actuarial losses on employee benefit plans	**$(4,405)**	$(11,366)

Note 8 – Capital management

The Corporation does not have share capital. However, the Corporation has received advances from CIC to form its equity capitalization. The advances are an equity investment in the Corporation by CIC.

Due to its ownership structure, the Corporation has no access to capital markets for internal equity. Equity advances in the Corporation are determined by the shareholder on an annual basis. Dividends to CIC are determined through the Saskatchewan Provincial budget process on an annual basis.

The Corporation closely monitors its debt level utilizing the debt ratio as a primary indicator of financial health. The debt ratio measures the amount of debt in a corporation's capital structure. The Corporation uses this measure in assessing the extent of financial leverage and in turn, its financial flexibility. Too high a ratio relative to target indicates an excessive debt burden that may impair the Corporation's ability to withstand downturns in revenues and still meet fixed payment obligations. The ratio is calculated as net debt divided by capitalization at the end of the period.

The Corporation reviews the debt ratio targets of all its subsidiaries on an annual basis to ensure consistency with industry standards. This review includes subsidiary corporations' plans for capital spending. The target debt ratios for subsidiaries are approved by their Boards. The Corporation uses targeted debt ratios to compile a weighted average debt to equity ratio for the consolidated entity. The targeted ratio for 2017/18 is 51.2%.

The Corporation raises most of its capital requirements through internal operating activities, short-term debt and long-term debt through the Saskatchewan Ministry of Finance. This type of borrowing allows the Corporation to take advantage of the Province of Saskatchewan's strong credit rating and receive financing at attractive interest rates.

The Corporation made no changes to its approach to capital management during the period.

The Corporation is not subject to any externally imposed capital requirements.

Note 8 – Capital management, continued

The debt ratio is as follows:

As at Thousands of dollars	**June 30, 2017**	March 31, 2017
Long-term debt	**$902,803**	$851,949
Short-term debt	**114,493**	177,105
Less: Sinking funds	**145,453**	141,033
Cash	**8,948**	11,067
Net debt	**862,895**	876,954
Equity (a)	**951,775**	954,672
Capitalization	**$1,814,670**	$1,831,626
Debt ratio	**47.6%**	47.9%

a) Equity includes equity advances, accumulated other comprehensive income (loss) and retained earnings at the end of the period.

Note 9 – Additional financial information

a) Statement of Financial Position

As at Thousands of dollars	**June 30, 2017**	March 31, 2017
Trade and other receivables		
Customer accounts receivable	**$83,583**	$83,416
Accrued receivables - customer	**2,745**	3,597
Allowance for doubtful accounts	**(2,276)**	(2,384)
	84,052	84,629
High cost serving area subsidy	**2,467**	2,420
Other	**33,270**	57,941
	$119,789	$144,990
Inventories		
Inventories for resale	**$18,536**	$24,173
Materials and supplies	**2,078**	1,289
	$20,614	$25,462
Prepaid expenses		
Prepaid expenses	**$43,728**	$42,761
Deferred service connection charges	**3,153**	3,323
Short-term customer incentives	**5,198**	5,287
	$52,079	$51,371

Note 9 – Additional financial information, continued

a) Statement of Financial Position, continued

As at Thousands of dollars	**June 30, 2017**	March 31, 2017
Trade and other payables		
Trade payables and accrued liabilities	**$93,493**	$127,374
Payroll and other employee-related liabilities	**30,704**	32,242
Other	**11,868**	9,533
	$136,065	$169,149
Other liabilities		
Advance billings	**$56,056**	$54,623
Deferred customer activation and connection fees	**4,168**	4,290
Current portion of deferred income - government funding	**5,675**	5,525
Cutomer deposits	**3,488**	4,023
Risk management liabilities	**793**	64
	$70,180	$68,525

b) Non-cash working capital changes

	Three months ended June 30,	
Thousands of dollars	**2017**	2016
Net change in non-cash working capital balances related to operations		
Trade and other receivables	**$23,466**	$(3,515)
Inventories	**4,848**	(219)
Prepaid expenses	**(708)**	2,115
Trade and other payables	**(33,084)**	(17,783)
Other liabilities	**1,655**	194
Deferred revenues	**(656)**	(581)
Other	**2,827**	2,165
	$(1,652)	$(17,624)

Note 9 – Additional financial information, continued

c) Changes in liabilities arising from financing activities

Thousands of dollars	Liabilities: Long-term debt	Liabilities: Notes payable	Equity: Retained earnings	Total
Balance at April 1, 2017	**$851,949**	**$177,105**	**$711,416**	**$1,740,470**
Changes from financing cash flows				
Proceeds from loans and borrowings	**50,748**	**209,324**	**-**	**260,072**
Repayment of borrowings	**-**	**(271,936)**	**-**	**(271,936)**
Dividends paid	**-**	**-**	**(7,500)**	**(7,500)**
Total changes from financing cash flows	**50,748**	**(62,612)**	**(7,500)**	**(19,364)**
Other changes				
Liability related				
Amortization of net discount on long-term debt	**106**	**-**	**-**	**106**
Total liability-related other changes	**106**	**-**	**-**	**106**
Total equity-related other changes	**-**	**-**	**8,559**	**8,559**
Balance at June 30, 2017	**$902,803**	**$114,493**	**$712,475**	**$1,729,771**

Note 10 – Financial risk management

The Corporation is exposed to fluctuations in foreign exchange rates and interest rates, as well as credit and liquidity risk. The Corporation utilizes a number of financial instruments to manage these exposures. The Corporation mitigates the risk associated with these financial instruments through Board-approved policies, limits on use and amount of exposure, internal monitoring, and compliance reporting to senior management and the Board. The Corporation's financial risks have not changed significantly from the prior period. At June 30, 2017, the Corporation had foreign currency derivatives outstanding with face values of $32.5 million and maturities up to December 29, 2017. The Corporation does not actively trade derivative financial instruments.

Fair values are approximate amounts at which financial instruments could be exchanged between willing parties based on current markets for instruments with similar characteristics, such as risk, principal and remaining maturities. Fair values are estimates using present value and other valuation techniques which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates that reflect varying degrees of risk. Therefore, due to the use of judgment and future-oriented information, aggregate fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

As at			**June 30, 2017**		March 31, 2017	
Thousands of dollars	Classification (a)	Fair value hierarchy	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Financial assets						
Investments - sinking funds	FVOCI	Level 2	**$145,453**	**$145,453**	$141,033	$141,033
Financial liabilities						
Long-term debt	OL	Level 2	**$902,803**	**$1,039,946**	$851,949	$972,359
Derivative financial instruments						
Foreign exchange derivative liability	FVTPL	Level 2	**$(793)**	**$(793)**	$(64)	$(64)

(a) Classification details are:
FVTPL - fair value through profit or loss FVOCI – fair value through other comprehensive income OL - other liabilities

Note 10 – Financial risk management, continued

Fair value hierarchy
When the carrying amount of a financial instrument is the most reasonable approximation of fair value, reference to market quotations and estimation techniques is not required. The carrying values of cash, trade and other receivables, trade and other payables and notes payable approximate their fair values due to the short-term maturity of these financial instruments.

For financial instruments listed below, fair value is best evidenced by an independent quoted market price for the same instrument in an active market. An active market is one where quoted prices are readily available, representing regularly occurring transactions. Accordingly, the determination of fair value requires judgment and is based on market information where available and appropriate. Fair value measurements are categorized into levels within a fair value hierarchy based on the nature of the inputs used in the valuation.

Level 1 – Where quoted prices are readily available from an active market.
Level 2 – Valuation model not using quoted prices, but still using predominantly observable market inputs, such as market interest rates.
Level 3 – Where valuation is based on unobservable inputs.

There were no items measured at fair value using level 3 during 2016/17 or to date in 2017/18 and no items transferred between levels in 2016/17 or to date in 2017/18.

Investments carried at fair value through OCI
Investments carried at fair value through OCI and categorized as level 2 in the hierarchy include sinking funds. The fair value of sinking funds is determined by the Saskatchewan Ministry of Finance using information provided by investment dealers. To the extent possible, valuations reflect secondary pricing for these securities.

Long-term debt
The fair value of long-term debt is determined by the present value of future cash flows, discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.

Derivative financial instruments
The fair value of derivative financial instruments that are used to manage foreign currency exposure risks are estimated based upon quoted market prices in active markets for the same or similar financial instruments or on current rates offered to us for financial instruments of similar maturity, as well as discounted future cash flows determined using current rates for similar financial instruments of similar maturities subject to similar risks (such fair value estimates being largely based on the Canadian dollar versus U.S. dollar forward exchange rate as at the statement of financial position dates).

Note 11 – Comparative figures

Certain of the 2016/17 comparative figures have been reclassified to conform with the financial statement presentation adopted for the current fiscal period.